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C O N F I D E N T I A L SECTION 01 OF 03 SINGAPORE 000704

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TAGS: EAIR EINV ETRD PGOV ECON SN
SUBJECT: SINGAPORE AIRPORT "CORPORATIZED"; LEE FAMILY AND
TEMASEK INFLUENCE STRENGTHENED

REF: A. SINGAPORE 165
¶B. SINGAPORE 128
¶C. SINGAPORE 695

SINGAPORE 00000704 001.2 OF 003

Classified By: CDA Daniel L. Shields for reasons 1.4 (b) and (d)

¶1. (C) SUMMARY: Singapore has "corporatized" Changi International Airport in a move that will consolidate control of the domestic aviation sector in the hands of sovereign wealth fund Temasek and the Lee family. Aviation regulator, the Civil Aviation Authority of Singapore (CAAS) has split off from a newly created airport operator, owned by Temasek Holdings, called Changi Airport Group (CAG), which will run the airport and attempt to expand the Changi Airport model into new markets. Prime Minister Lee Hsien Loong's brother Lee Hsien Yang is the new chairman of CAAS, while the PM's wife, Ho Ching, remains as CEO of Temasek, the owner of CAG. Temasek also owns a majority position in Singapore Airlines, which in turn owns a majority stake in the dominant ground-services handler Singapore Airport Terminal Services, which appeared to force out a foreign competitor earlier this year. Temasek may be consolidating its domestic airport services businesses to create a platform from which to export the Changi Airport model into other markets, but such control also provides latitude to protect local market share and jobs, which has political implications. Even as the GOS trumpeted the benefits of corporatization, bloggers wrote that the restructuring of Changi Airport is just a reshuffling of assets between the Lee family and Temasek. End Summary.

Changi Airport "Corporatized" Effective July 1
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¶2. (SBU) On July 1, Singapore followed through on previously announced plans to "corporatize" Changi International Airport by launching a restructured Civil Aviation Authority of Singapore (CAAS), which will continue to have regulatory authority over the aviation sector. The move creates a new subsidiary of sovereign wealth fund Temasek Holdings called Changi Airport Group (CAG), which will now manage airport operations and attempt to expand the Changi airport model into markets outside Singapore. Prime Minister Lee Hsien Loong's brother and former CEO of Temasek-owned SingTel, Lee Hsien Yang, took charge as chairman of the new CAAS. Lee Seow Hiang, a Singapore airforce veteran and former Principal

Private Secretary to Minister Mentor Lee Kuan Yew was named Chief Executive Officer of CAG. The Ministry of Transport (MOT) officially announced details regarding the corporatization and executive appointments in October 2008, but press reports indicated that the GOS had begun preparing for the restructuring as early as 2007. Minister for Transport Raymond Lim, and Lim Hwee Hua, who was promoted in April to Minister in the Prime Minister's Office and Second Minister for Finance and Second Minister for Transport, led the steering committee responsible for the restructuring effort.

Positioning Changi Airport Group for Global Expansion
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¶3. (SBU) Minister Lim and MM Lee both publicly hailed the corporatization of Changi International as important for maintaining Singapore's position as a leading global air hub. The restructuring will allow CAAS to focus more on regulatory issues and advancing Singapore's strategic aviation interests, while CAG will be able to aggressively pursue overseas business ventures and investment opportunities, they said. As part of that change, Changi Airports International (CAI), formerly the arm of CAAS responsible for investing and managing airports overseas, was absorbed by CAG and is now considered a wholly-owned subsidiary of CAG. CAI contacts told Econoff that CAI will continue to use its own funds to invest in projects overseas and that Temasek will only be involved with CAI investments as the parent of CAG. However, both expressed hope that Temasek would more actively partner in CAI's investments and suggested that the shape of the relationship between CAI, CAG and Temasek is still evolving.

¶4. (SBU) CAG is positioning itself as a partner that will help airlines expand route networks into new markets and grow traffic volumes. Under the old Changi Airport structure, CAAS administered the S$130 million (US$87 million) Air Hub Development Fund (AHDF), which aimed to help expand the businesses of foreign and domestic airlines and "airport partners" (e.g., airport terminal retailers) operating in Singapore (Ref A). CAG will now administer the AHDF under the new corporatized structure, CAAS Director for International Relations Eileen Poh told Econoff. CAG is open to co-investing with airlines on facilities and services that would improve Changi Airport and develop links between foreign cities and Changi Airport.

Consolidating Control Under Temasek

¶5. (C) The creation of CAG helps consolidate and formalize Temasek's control of the aviation sector in Singapore. Temasek was already the majority owner of Singapore Airlines, which in turn owns Singapore Airport Terminal Services (Sats) the ground-handling services provider and in-flight caterer that enjoys almost 80 percent market share in Singapore. Sats leadership was quoted in the press saying that Sats expects the corporatization to "give rise to closer cooperation and more vibrant exchange of ideas between Changi Airport Group and service providers like Sats." (Comment: This remark suggests closer ties between CAG and Sats, which could indicate an effort by Temasek to consolidate its various aviation service providers in order to build a platform from which it can export the Changi Airport model overseas. At the very least, such consolidation provides Temasek latitude to protect market share in the strategically important domestic aviation sector. That in turn helps protect local jobs and salaries, which is critical to the GOS. End Comment.)

Setting the Stage - Force out Foreign Competitors
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¶6. (C) Earlier this year, it appeared that Sats succeeded in muscling out the first new entrant into the ground-handling services sector in 30 years when Swissport, a subsidiary of Spanish firm Ferrovial, announced in January that it would close its Singapore operations and depart Changi Airport. Swissport decided to leave Singapore only four years after winning a ten-year license to be the third airport ground handler in Singapore. At the time, trade publications quoted Swissport's spokesman Stephan Beerli saying that Changi Airport may be open but it is "not truly deregulated or liberalized." Beerli noted that established systems at Changi Airport "made it impossible to compete with the incumbent firms": Sats, established in 1972, and Changi International Airport Services (CIAS), which was established in 1977 and was majority-owned by Temasek until Dubai-based Dnata acquired CIAS in 2004. CIAS's CEO is a Singaporean who has been with the company since 1978.

¶7. (C) CAAS had credited Swissport's entry into Changi with bringing down handling costs by about 15 percent. Swissport and some press reports alleged that Sats and CIAS began charging airlines 30 percent more after Swissport announced its departure. Sats and CIAS took over Swissport's customers and absorbed about half of Swissport's employees. Following Swissport's departure announcement, one blogger wrote, "...isn't that good for us? Airlines have to pay more so that local handlers can earn profit and retain their workforce."

¶8. (C) On their departure, Swissport Singapore's leadership alluded to unfair competition that Emboffs have seen signs of before in other sectors dominated by Temasek companies (Ref B). However, the Swissport contacts declined to elaborate. The Vice President of Swissport's Commercial operations initially told Econoff that he would like to discuss what he viewed to be anti-competitive behavior on the part of Sats and CIAS, saying he would be "glad to talk if it would help other companies." However, he later recanted and said he could not meet because Swissport was given a very good deal "to get out of Singapore" and he did not want to say anything that would "come back to bite him." Without more detail it

is difficult to assess what Swissport was up against, but Swissport's experience in Singapore follows a familiar pattern. Other foreign firms, particularly in strategic industries that are dominated by Temasek subsidiaries, like energy and telecom, have been welcomed into Singapore with the GOS heralding the benefits of greater competition and market liberalization. However, some foreign firms are driven out of business as a result of predatory pricing and/or opaque and endless regulatory foot-dragging by GOS statutory boards that are powerless in the face of Temasek's considerable political influence.

Lee Family and Temasek - From One Hand to the Other

¶9. (C) While the GOS trumpeted the corporatization, several members of the public expressed their skepticism about the change through blogs that pointed out that, in fact, the "corporatization" does not mean "privatization" or signal greater liberalization of the market because it is a government restructuring that moves airport operations from a GOS statutory board to a GOS sovereign wealth fund. Ho Ching, the Prime Minister's wife and CEO of Temasek, has decided not to step down from Temasek after announcing she would do so in March (Ref C), and will therefore remain the head of CAG's parent while the Prime Minister's brother serves as the chairman of the aviation regulatory authority. One blogger summed up his thoughts on the corporatization saying it is a move "from the left to the right hand of the government. Perhaps there are more conflicts of interest now...and of course, potentially million dollar salaries for these million dollar talents."

The Higher Salaries Factor

¶10. (C) A senior Singapore business leader told CDA that one of the key reasons the GOS decided to corporatize Changi Airport is that this opened the door for airport executive leadership to collect significantly higher salaries, which would no longer be capped at the level of the salary of a Permanent Secretary in the GOS. For salary-related reason, Singapore has been losing top Changi Airport talent to other airports around the world. The GOS is concerned that Changi Airport could lose competitiveness to other state-of-the-art airports around the region. In the long term, the biggest competitive challenge to Changi Airport may come from Bangkok's Suvarnabhumi Airport, which is even more strategically located than Changi. Many international travelers could shave an hour off their travel times, and airlines could make commensurate fuel savings, if their flights connected through Bangkok rather than Singapore, the source said.

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